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SUBJECT: THE NATIONAL DIALOGUE: SETTING OBJECTIVES FOR A  
BETTER HONDURAS

1. Summary. On October 27, President Ricardo Maduro received the results of the National Dialogue which, by means of consensus, attempts to prioritize national objectives in order to benefit the most vulnerable groups of society. Following the idea that the National Dialogue should be participatory in nature, representatives from 298 municipalities throughout Honduras participated in nine different workshops. The result was a voluminous document that presented ideas for both the short and long term. Among the themes covered in the National Dialogue were: political and institutional development; justice and security of democracy; human capital and social development; and creating sustainable economic growth that benefits all classes. End Summary.

2. Perhaps the most notable development is that of a fiscal pact which seeks to increase much-needed government revenues. The proposed pact advocates for and is aligned with many of the recommendations made by the IMF and includes methods to facilitate the collecting and paying of taxes, as well as eliminating many unnecessary tax exemptions. Other issues addressed in the pact include the reigning in of public expenditures and an increased level of fiscal transparency.

3. A law currently being drafted on the fiscal pact as a result of the National Dialogue addresses the aforementioned areas of concern. Article 3 of this draft law attempts to tackle the problems concerning the intake or lackthereof of government revenues. (Note: Due to the fact that the GOH can not support financially its own spending and relies heavily on foreign aid, large strides made in this area could benefit Honduras greatly. End Note). Items proposed under Article 3 include: introducing a simplified system to tax the informal sector; a gradual end to unnecessary tax exemptions, which includes limiting future exemptions for emergency purposes only; a general widening of the tax base; and applying control measures in order to combat and reduce tax evasion. President of Congress, Pepe Lobo, has recently come out publically stating that Congress would not support any measures relating to tax increases or reforms, mostly due to political pressure relating to IMF requirements.

4. Article 4 of the draft law addresses the issue of better controlling government expenditures. Under this law government expenditure would be limited to 18 percent of the country's GDP, and could only be exceeded if deemed necessary for the strict use of covering basic social services such as health, education, and security. Other proposed reforms under this article include: reducing the amount of subsidies offered to businesses, only keeping those necessary to support low-income households; gradually reducing public debt as a percentage of GDP; transferring control of human, economic, and natural resources in an effort to decentralize in order to create efficiencies in administration.

5. The principal objective of the National Dialogue relating to the fiscal pact was to identify problems within the current system. The draft law addresses these issues and attempts to increase revenues, decrease spending, and create efficiencies in administration, without raising the tax rate. The fiscal pact is an ambitious plan that if accomplished, would widen the tax base, eliminate unnecessary subsidies and exemptions, and create a more modern GOH that would benefit the country as a whole.

6. Comment: The likelihood of such a law passing would require a broad coalition in order to push the bill through Congress. As such, the lack of political will among members of Congress will unequivocally dilute the effectiveness of rosy, rhetorical dialogue producing an end result that falls well short of its initial goal. End Comment.

Palmer